

Daily Market Outlook

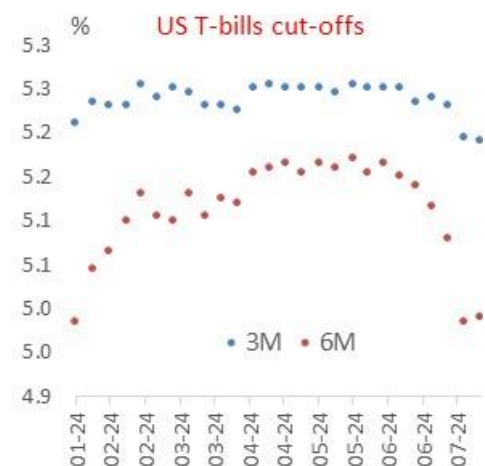
23 July 2024

USTs in ranges ahead of core PCE; MAS policy in focus

- DM rates.** UST yields traded within ranges with long-end yields edging up during NY session, in the absence of catalyst. Fed funds futures pricing was little changed, at 62bps this year. Cut-offs at the 3M and 6M T-bills auctions came in at similar levels as at previous auctions, with the spread between the two cut-offs also little changed at -20bps versus -21bps prior, reflecting stable rate cuts expectation. There is a slew of data releases before July FOMC meeting including July PMIs, Jun new/existing home sales, Q2 GDP, Q2 PCE, Jun durable goods orders etc but more importantly is June PCE/core PCE on Friday. Given the rate cuts priced by the market, risk to PCE/core PCE has become asymmetric in that market reaction may be bigger should the data disappoint. Bunds and Gilts underperformed USTs as wage growth is more of a concern in Europe and UK than in US at this point of time. Still, Lagarde has downplayed the currently elevated wage growth as representing a lagging impact. Overnight, ECB Council Member Kazimir opined that market pricing of two more rate cuts are not entirely misplaced but these expected rate cuts shouldn't be taken as a given either. Our base-case remains for two additional 25bp ECB rate cuts before year-end.
- SGD and SGD rates.** June CPI will be released later today. Core CPI might have stayed sticky downward in the range of 3.0-3.1%YoY. Core inflation may step down more materially only from Q4 2024 onwards. Given the expected core CPI profile, we expect MAS to maintain S\$NEER policy parameters – the slope, the mid-point and the band width – unchanged at the upcoming meeting on Friday. S\$NEER strength may linger and only fade at some point this year when core inflation starts to ease in 4Q. Historically there is a positive correlation between the change in S\$NEER and MAS core inflation. A positive S\$NEER slope *per se* tends to exert a downward pressure on front-end SGD rates through the FX swap dynamics, which may keep SGD rates meaningfully below USD rates. That said, given S\$NEER is already elevated, additional downward pressure on SGD rates upon a status quo decision by MAS shall be minimal, meaning we do not expect short-end SGD-USD rates differentials to narrow back materially, after the recent widening (as in becoming less negative). Our medium-term view remains for short-end SGD rates to underperform USD rates in a falling rates environment, thereby partially normalizing rates differentials. However, such SGD rates underperformance may be

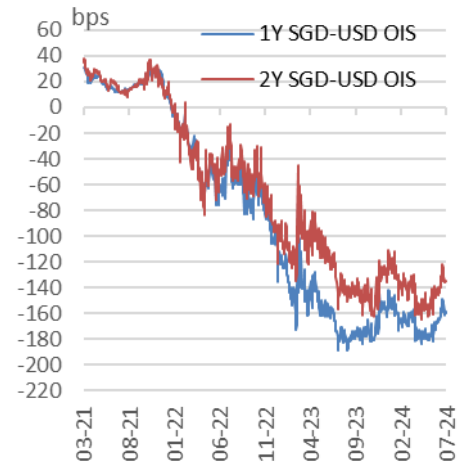
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Source: Bloomberg, OCBC Research

mild especially if MAS extends the current policy settings. On balance, we expect SGD rates to grind lower in a gradual manner over the remainder of the year on the back of our lower USD rate view, with front-end SGD OIS (3M up to 1Y) moving towards the 3.15-3.30% area. The size of the reopening of 15Y SGS will be announced later today. Today also brings the auctions of SGD15.2bn of 4W MAS bills and SGD22bn of 12W MAS bills; the 1M and 3M implied SGD rates were last at 3.67% and 3.61% respectively, which were around 7bps higher and virtually the same as the levels around the time of last week's MAS bills auctions. Expected range for 4W cut-off is at 3.84-3.89% and for 12W cut-off is at 3.79-3.84%.



Source: Bloomberg, OCBC Research

- IndoGBs** traded on the weak side on Monday alongside higher USD/IDR. The Rupiah underperformed most regional peers on Monday amid a risk-off environment and DNDF maturity. Long-end IndoGB yields extended the upward move this morning, ahead of today's conventional bond auction. Today's bond sales comprise the reopening of FR101 (2029 bond), FR100 (2034 bond), FR098 (2038 bond), FR097 (2043 bond), FR102 (2054 bond), and bills. Indicative target is IDR22trn with a possibility of upsizing to IDR33trn but we do not expect an upside. We have a mild steepening bias on the IndoGB curve; but still relatively high SRBI rates – albeit with the recent easing - shall limit the downside to short-end IndoGB yields, which in turn will narrow the room for a steepening move. In the five trading days to 19 July, IndoGBs (including bills) saw outflows of IDR1.63trn; foreign holdings edged lower to IDR811trn or 14.01% of outstanding as of 19 July. Recent flow picture is in line with our view that there is unlikely to be a strong comeback of foreign inflows yet.

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